

**AGENDA**  
**FREMONT PUBLIC FINANCING AUTHORITY SPECIAL MEETING**  
**MARCH 22, 2011**  
**7:00 P.M.**

**1. CALL TO ORDER**

**2. CONSENT CALENDAR**

*Items on the Consent Calendar are considered to be routine by the Public Financing Authority and will be enacted by one motion and one vote. There will be no separate discussion of these items unless an Authority Member or citizen so requests, in which event the item will be removed from the Consent Calendar and considered in its normal sequence on the agenda. Additionally, other items without a "Request to Address the Public Financing Authority" card in opposition may be added to the consent calendar. (In the report section of the agenda, consent items are indicated by an asterisk.)*

2.1 Approval of Minutes – None.

2.2 **REPLACEMENT OF LETTER OF CREDIT ON 1998 VARIABLE RATE COPS**

*Replacement of Letter of Credit on the City of Fremont 1998 Variable Rate Demand Certificates of Participation (1998 Family Resource Center Financing Project) (COPs)*

*Contact Person:*

*Name: Harriet Commons*  
*Title: Finance Director/Treasurer*  
*Dept.: Finance*  
*Phone: 510-284-4010*  
*E-Mail: hcommons@fremont.gov*

*RECOMMENDATION: Adopt a resolution approving the form and authorizing and directing execution of an amendment to the trust agreement relating to the City's \$12,500,000 Variable Rate Demand Certificates of Participation (1998 Family Resource Center Financing Project).*

**3. PUBLIC COMMUNICATIONS**

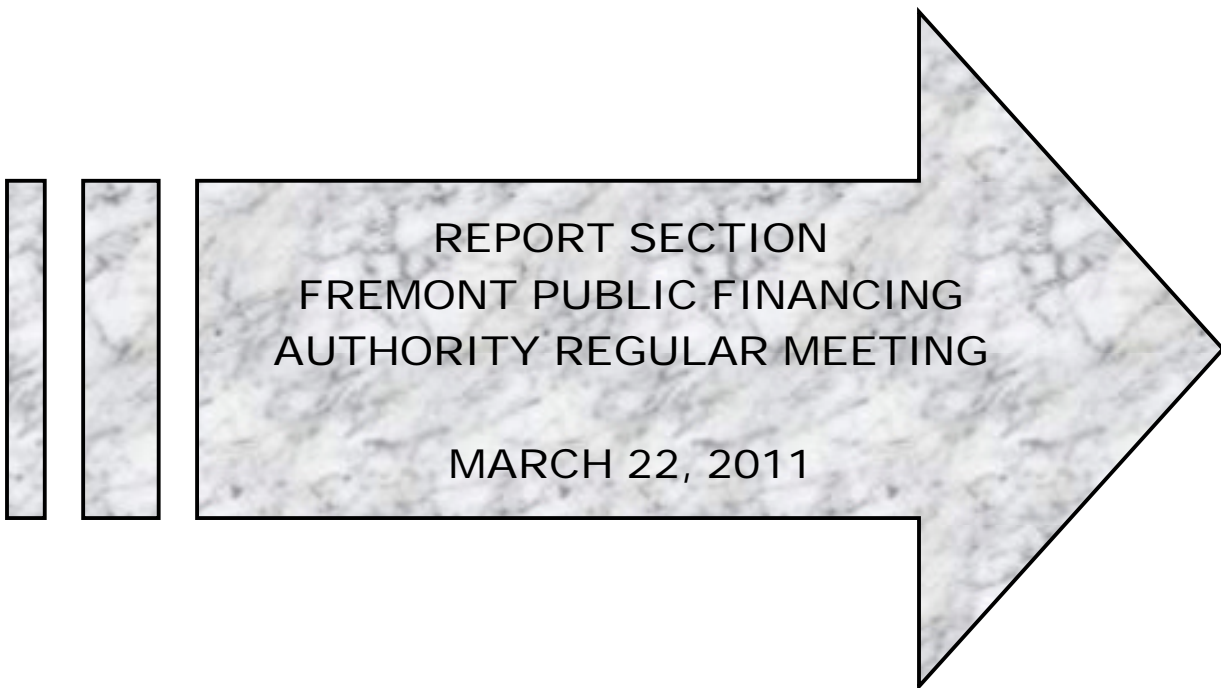
3.1 Oral and Written Communications

**4. PUBLIC HEARINGS – None.**

**5. OTHER BUSINESS – None.**

**6. ADJOURNMENT**







**\*2.2 REPLACEMENT OF LETTER OF CREDIT ON 1998 VARIABLE RATE COPS**  
**Replacement of Letter of Credit on the City of Fremont 1998 Variable Rate Demand**  
**Certificates of Participation (1998 Family Resource Center Financing Project) (COPs)**

**Contact Person:**

Name: Harriet Commons  
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**A companion item appears on tonight's City Council agenda.**

**Executive Summary:** The City of Fremont, through the Fremont Public Financing Authority (PFA), executed and delivered its Variable Rate Demand Certificates of Participation (1998 Family Resource Center Financing Project) (the "Certificates" or "COPs") on February 1, 1998, with a direct pay letter of credit from Kredietbank N.V., acting through its New York Branch ("KBC"), providing credit and liquidity support. KBC has notified the City that it will not renew the 1998 Letter of Credit. It is necessary for the City to replace this letter of credit with an irrevocable letter of credit from a financial institution equal in amount and substantially identical in substance to the 1998 Letter of Credit in order to be able to continue to market these COPs on a variable rate demand basis. Staff recommends substituting the letter of credit with KBC with one from U. S. Bank, a bank with a strong rating that will allow the COPs to continue to be attractive investments for money market fund investors.

**BACKGROUND:** The City of Fremont, through the Fremont Public Financing Authority (PFA), executed and delivered its Variable Rate Demand Certificates of Participation (1998 Family Resource Center Financing Project) (the "Certificates" or "COPs") on February 1, 1998, with a direct pay letter of credit from Kredietbank N.V., acting through its New York Branch ("KBC"), providing credit and liquidity support. Following the initial term of the KBC letter of credit, three amendments were executed extending the original term of the letter of credit.

The most recent amendment expires on May 12, 2011, and KBC has indicated its unwillingness to extend this letter of credit and, indeed, has a new-found reluctance to provide letters of credit in general, and to California municipal issuers in particular. Accordingly, City staff and KNN Public Finance, the City's financial advisor, moved to obtain a replacement letter of credit from a strongly rated bank that will allow these COPs to continue to trade at the same level as similar issues with a strongly rated bank letter of credit.

**DISCUSSION/ANALYSIS:** Obtaining a substitute letter of credit for this issue has been challenging because of its relatively small size (approximately \$10 million remains outstanding). U. S. Bank, National Association ("U. S. Bank"), however, has expressed a willingness to provide a letter of credit for this debt issue, primarily because of its other letter of credit arrangements with the City. (U. S. Bank replaced Allied Irish Bank on the City's 2008 COPs, and is the letter of credit provider on the City's most recently issued 2010 COPs). U. S. Bank is rated AA- long-term and A-1+ short-term by Standard & Poor's and, in combination with the City's current AA COP rating, will give the COPs a AAA long-

term rating and a A-1+ short-term rating from Standard & Poor's. (Other U. S. Bank ratings are Aa1/P-1 from Moody's and AA-/F1+ from Fitch.)

The new reimbursement agreement between the City and U. S. Bank, which governs the letter of credit, and the new letter of credit, both substantially in the form that will be executed, will be submitted to Standard & Poor's for rating the COPs with the new letter of credit. Rating is estimated to take about three weeks, but could be completed sooner. The City's trustee for the COPs will execute a mandatory tender (call) of the COPs and the City's remarketing agent will remarket the COPs to investors with the U. S. Bank letter of credit. At that point, on a Wednesday, the U. S. Bank letter of credit will become effective. At that time, as a condition of issuance, U. S. Bank will also assume the duties of remarketing agent, a role previously filled by Barclay's Capital, Inc. There are no substantive changes to the basic documents or terms of the COPs, although U. S. Bank has requested some administrative changes to the trust agreement, with which staff concurs; the letter of credit replacement is entirely within the terms of these documents.

The resolution before the Authority Board for adoption authorizes staff to take actions to amend the trust agreement as requested by U. S. Bank.

**FISCAL IMPACT:** The estimated costs with respect to the letter of credit replacement are as follows:

U. S. Bank, for Letter of Credit	Estimated 115 basis points (1.15%) annually on the outstanding amount of the letter of credit; no up-front fee.
Hawkins Delefield & Wood LLP, Bank Counsel	\$40,000 to \$50,000
KNN Public Finance, City's Financial Advisor	\$17,500
Quint & Thimmig, Special Counsel for the Certificates	\$17,500
Standard & Poor's, Letter of Credit Substitution Fee	\$5,000
Estimated total out-of-pocket costs to the City at letter of credit substitution	\$80,000 to \$90,000

The positive fiscal impact of replacing the KBC letter of credit with the U. S. Bank letter of credit is the ability to continue to market these COPs as variable rate demand obligations. The other alternative, had a substitute letter of credit bank not been found, would have been to convert these COPs to a fixed rate debt at a higher annual interest rate, or to structure it as a hybrid of a fixed and variable rate debt instrument. Having the ability to maintain the variable rate demand structure is both cheaper and easier to administer. This will result in continued savings to the City's General Fund, rather than adding additional ongoing debt service costs.

**ENVIRONMENTAL REVIEW:** Not applicable.

**ENCLOSURE:** [Draft Resolution](#)

**RECOMMENDATION:** Adopt a resolution approving the form and authorizing and directing execution of an amendment to the trust agreement relating to the City's \$12,500,000 Variable Rate Demand Certificates of Participation (1998 Family Resource Center Financing Project).